



October 4, 2002

Luly Massaro
Clerk of the Public Utilities Commission
89 Jefferson Boulevard
Warwick, Rhode Island 02888

RE: **Docket 3444 – Comments of The Narragansett Electric Company
Concerning the Non-Residential Last Resort Service Floor Price**

Dear Ms. Massaro:

Enclosed on behalf of The Narragansett Electric Company (“Narragansett” or “Company”) are an original and nine copies of the Company’s comments concerning the floor price currently in effect for non-residential customers taking Last Resort Service under the Company’s tariffs. Specifically, on September 11, 2002, the Commission requested comments from the Company, interested parties and members of the public as to whether there is still a sound policy or reason for keeping the Last Resort Service floor rate of 4.5 cents per kilowatt-hour (“kWh”) in effect for non-residential customers.

Background

The Company’s currently approved Last Resort Service (“LRS”) tariff contains a provision establishing the LRS rate for non-residential customers at the greater of (i) the monthly market price for the month, or (ii) 4.5 cents per kWh. Thus the tariff sets a “floor” price of 4.5 cents per kWh. The Tariff also requires that residential customers taking LRS be charged the Standard Offer rate for LRS. Presently, the Standard Offer rate is set at 4.662 cents per kWh.

The floor price for non-residential customers was established as the result of a proposal made in the Company’s April 2000 Last Resort Service filing in Dockets 3005 and 3117. In that filing, the Company proposed a relatively stable series of transitional prices for LRS during a time when the actual cost for Last Resort Service had risen to a level considerably higher than the rate in effect at that time. Rather than base LRS prices at their actual cost, the Company proposed transitional increases for several months followed by a rate set at the higher of the market price or 4.5 cents per kWh. According to the direct testimony of Company witness Peter T. Zschokke, setting the floor price at 4.5 cents per kWh would “permit some of the under recovery to be made up to the extent any customers are remaining on the rate.” The Commission modified the Company’s proposal by immediately setting the rate at the higher of the actual market price or 4.5

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cents per kWh. Thus, the floor price was established so that Standard Offer customers would recoup some of the benefit previously conferred on Last Resort customers if market prices were to fall below the 4.5 cents per kWh level. The Commission approved the new rate structure to become effective on June 1, 2000.

Comments of the Company

At this time, the Company believes that the LRS floor price of 4.5 cents per kWh should be eliminated. There are a number of factors that have motivated the Company to come to this conclusion. First, the original reason for implementing the floor price has passed. As stated above, the floor price was set to recoup an under-recovery. According to the testimony of Messrs. Hager and Scialabba in this proceeding, under-recoveries from prior periods have now been fully recovered. Transcript at 106 and 110. As it stands today, the floor price would cause the Company to over-collect its actual costs for providing non-residential LRS service.

Second, the Company believes it is appropriate to allow non-residential LRS prices to reflect its actual cost of procuring Last Resort Service. Assuming that customers are already paying for LRS at rates generally reflecting the market, a cost based rate may encourage customers to move to the marketplace. Similarly, it may also provide a means for non-regulated power producers to compete for customers during periods when the Standard Offer price is lower than the prevailing market price. While it is true that setting the LRS rate above the prevailing market price would provide a greater incentive for LRS customers to go to the market, it may also have the effect of discouraging Standard Offer customers from going to the market. This is particularly true if Standard Offer customers believed that, after their competitive contract expired, they would end up paying a price higher than the market under the LRS rate.

Narragansett recognizes that today's recommendation may not apply for the long run, nor is it proposed to apply to the residential class. The Company believes that, until competitive supplies become generally available to the residential class, it is appropriate for all residential LRS customers to stay on the same rate as Standard Offer customers. Further, even if the Commission determines that it is an appropriate policy to maintain a floor price, the Company believes it would be more appropriate to set the floor price to match the Standard Offer price, rather than having it set below the Standard Offer price at a fixed and constant rate of 4.5 cents per kWh.

Related Issues

The Company's caution about applying this proposal for the long run comes not only because it can sometimes be difficult to foresee the changing nature of markets, but also because of recently amended legislation. The Company's present Last Resort Service and Standard Offer Service tariffs are completely consistent with the prior language of the Rhode Island statute that required electric utilities to provide LRS for

customers “who are no longer eligible to receive service under the standard offer”. See RIGL 39-1-27.3 (f) (2001). Under the present Last Resort Service tariff, customers are only eligible to take Last Resort Service if they are “ineligible for Standard Offer Service” The Standard Offer Service tariff indicates that all customers “who have not elected to take their electric supply from a non-regulated power producer will receive their power supply under this Standard Offer Rate until the Customer either: (1) takes it electric supply from a non-regulated power producer; or (2) takes Last Resort Service”.

As the Commission recognized in this proceeding, however, the recently enacted legislation may permit Standard Offer customers to move directly to LRS without the intervening requirement of taking service from a non-regulated power producer. Transcript at 110. Under the amended statute, the Company is required to arrange for a last resort service supply to customers who have left the Standard Offer “for any reason”. See RIGL 39-1-27.3 (C). Thus, the revised language of the statute arguably may require a revision to the terms of the Company’s present tariffs.

If the company’s tariffs were amended to permit any customer to move to Last Resort Service at will, this in turn could precipitate a migration to the Last Resort Service at times when LRS prices are significantly lower than the Standard Offer Service rate. Once on the Last Resort Service rate, however, customers would no longer be afforded the rate stability that Standard Offer Service provides. The Company cannot predict with any certainty what the LRS rate will be for the long term and, under the present tariffs, once customers leave the Standard Offer Service rate they are not permitted to return. In addition, under the terms of the revised statute, LRS customers will not be permitted to return to Standard Offer unless the Commission first holds hearings and finds that competitive supplies are insufficient to provide a reasonably priced power supply to these customers. See RIGL 39-1-27.3.1(2002). As recognized by Mr. Scialabba in this proceeding, these issues may become a real concern once Standard Offer prices are permitted, in 2005, to rise above the present level of 4.662 cents per kWh. Transcript at 112.

The Company believes that, beyond the single issue in the present proceeding, it will be necessary to thoroughly review the applicability of the Company’s tariffs going forward in order to prevent unforeseen issues arising out of the amended legislation. An effort of this kind would also be a useful means for reviewing the progress of competition and restructuring, as well as implementing any mid-course corrections. For example, under the present tariff, customers are not permitted to move to Last Resort service unless they are no longer eligible for Standard Offer service. If there was a change to this policy to permit customers to move to LRS for any reason, the company would need to implement new training and scripting procedures for its customer service representatives to ensure that customers have sufficient information to make a fully informed decision on the matter. Conversely, the Company may seek Commission approval to prevent customers from being able to move from Standard Offer to Last Resort Service except under certain circumstances.

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Accordingly, the Company intends to make a filing with the Commission proposing changes to its tariffs to reflect the amended statute and to address potential ramifications to customers.

Thank you for your attention to this matter.

Sincerely,

Thomas G. Robinson
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Attorneys for Narragansett Electric
Company

c: P. Roberti
S. Scialabba